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PAGE 01 STATE 090001

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SUBJECT: US-ALGERIAN ECONOMIC COOPERATION

REF: STATE 089400 (TOSEC 120)

FOR SISCO FROM SOBER

1. FOLLOWING IS SANITIZATION OF PAPER MENTIONED PARA 3 REFTEL WHICH COULD BE USED WITH ALGERIANS TO EXPLAIN TYPES OF SUBJECTS WHICH COULD FALL WITHIN SCOPE OF A JOINT ECONOMIC COMMISSION. IF NOT ALREADY DONE BY SECRETARY, EAGLETON COULD PUT POSSIBILITY OF JOINT COMMISSION IN CONTEXT OF OUR DESIRE FOR CLOSER OVERALL RELATIONSHIP WITH ALGERIA, IN WHICH WE SEE PARTICULAR SCOPE FOR EXPANDED ECONOMIC COOPERATION. ALONG LINES OF OUR DISCUSSIONS WITH SAUDIS, A JOINT COMMISSION WOULD BE HEADED BY SENIOR OFFICIALS ON EACH SIDE AND WOULD PROVIDE FOCUS AND OFFICIAL GUIDANCE FOR OUR COOPERATION. WORK OF THE COMMISSION COULD BE CARRIED OUT BY WORKING GROUPS BETWEEN SESSIONS OF THE COMMISSION ITSELF. WE BELIEVE COMMISSION COULD BE CONDUCIVE TO CREATION OF ATMOSPHERE WHICH WOULD HELP PROMOTE COOPERATIVE VENTURES WITH AMERICAN FIRMS ALREADY

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SECRET

PAGE 02 STATE 090001

UNDER DISCUSSION AS WELL AS STIMULATE THINKING ON POSSIBLE

NEW AREAS OF COOPERATION.

2. FOLLOWING IS TEXT OF SANITIZED PAPER:

3. INDUSTRIALIZATION AND ECONOMIC DEVELOPMENT

ALGERIA HAS SHOWN INTEREST IN DIVERSIFYING ITS INDUSTRIAL BASE WHICH SO FAR HAS CONCENTRATED ON HYDROCARBONS. AMONG THE INDUSTRIES WHICH APPEAR TO OFFER EXCELLENT PROSPECTS FOR DEVELOPMENT AND IN WHICH US FIRMS MIGHT BE ENCOURAGED TO PARTICIPATE ARE THE FOLLOWING: A PETROCHEMICAL COMPLEX WHICH, AMONG OTHER THINGS WOULD INCLUDE SYNTHETIC RUBBER PLANT (BUTADIENE). A US TIRE MANUFACTURER HAS HELD DISCUSSIONS WITH ALGERIANS ON POSSIBLE TURN-KEY TIRE PLANT, FOR WHICH SYNTHETIC RUBBER MIGHT EVENTUALLY BE PRODUCED LOCALLY. GENERAL MOTORS STUDY GROUP WILL BE IN ALGIERS SOON TO STUDY POSSIBILITY OF MANUFACTURING AUTOMOTIVE AND/OR TRUCK COMPONENTS IN ALGERIA FOR DOMESTIC USE AND EXPORT TO OTHER ARAB COUNTRIES. IF RESULTS OF THEIR INVESTIGATION POSITIVE, WE COULD ENCOURAGE GM TO EXPLORE JOINT VENTURE WITH GOA'S SONACOME (VEHICLE MANUFACTURING MONOPOLY).

4. OTHER INDUSTRIES WHICH OFFER PROSPECTS FOR US

INVOLVEMENT INCLUDE MANUFACTURING OF ELECTRONIC EQUIPMENT (GENERAL TELEPHONE AND ELECTRONIC CORP. HAS SUBMITTED BID TO GOA FOR A PLANT TO PRODUCE ELECTRONICS COMPONENTS; EXPANSION AND UPGRADING OF THE ANNABA STEEL PLANT (US FIRM, BOOZ, ALLEN AND HAMILTON IS ENGAGED AS CONSULTANT ON SPECIFICATIONS FOR ENLARGEMENT); A FERTILIZER PLANT BASED ON PETROCHEMICALS AND LOCALLY PRODUCED PHOSPHATES; AGRICULTURAL MACHINERY; CONSTRUCTION MATERIALS; ALUMINUM COMPLEX (RALPH PARSONS HAS SIGNED TO DO ENGINEERING FOR THIS PLANT); DRILLING AND WELDING EQUIPMENT AND PLATE GLASS MANUFACTURING. LABOR INTENSIVE INDUSTRIES ARE OF SPECIAL INTEREST TO ALLEVIATE ALGERIA'S UNEMPLOYMENT PROBLEM.

5. TRADE

PROSPECTS FOR INCREASED TRADE ARE EXCELLENT. WHILE WE EXPECT US IMPORTS WILL CONTINUE TO CONSIST LARGELY OF
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PAGE 03 STATE 090001

HYDROCARBONS (OIL AND EVENTUAL MASSIVE AMOUNTS OF LNG) WE ARE INTERESTED IN DIVERSIFYING OUR PURCHASES. WINE, FOR WHICH THERE IS GROWING US MARKET AND OF WHICH ALGERIA HAS SURPLUS, IS A GOOD PROSPECT. ALGERIA, WITH GROWING OIL AND GAS REVENUES, WILL BE A RAPIDLY EXPANDING MARKET FOR US CAPITAL EQUIPMENT REQUIRED TO INDUSTRIALIZE AND CARRY OUT THE DEVELOPMENT PLAN.

6. BECAUSE OF ITS GROWING IMPORTANCE AS A TRADE PARTNER, ALGERIA HAS BEEN SELECTED FOR SPECIAL ATTENTION BY COMMERCE AND A COUNTRY COMMERCIAL PLAN IS BEING DEvised. THE PROPOSED JOINT COMMISSION COULD ASSIST EFFORT BY ASSURING PROPOSED PLAN FITS ALGERIA'S NEEDS.

7. INVESTMENT

ALGERIA'S AMBITIOUS ECONOMIC DEVELOPMENT PLAN 1974-77, IS EXPECTED TO COST ABOUT DOLS. 25 BILLION. ESTIMATED CONTRIBUTION TO THIS COST FROM GAS AND OIL REVENUES WILL COVER ONE-FIFTH TO ONE-QUARTER OF THIS AMOUNT. ALGERIA WILL BE OBLIGED TO CONTINUE BORROWING SUBSTANTIAL AMOUNTS ON THE INTERNATIONAL CAPITAL MARKET, AND CAN BE EXPECTED TO STEP-UP DEMANDS ON EXIM BANK AND IBRD. ALGERIA CERTAINLY WILL NOT HAVE SURPLUS FUNDS AVAILABLE FOR INVESTMENT ABROAD IN FORESEEABLE FUTURE.

8. ALGERIA HAS INDICATED AN INTEREST IN JOINT VENTURES WITH US PRIVATE FIRMS. IF CURRENT PRACTICE FOLLOWED, SUCH VENTURES WOULD BE CONTROLLED BY ALGERIAN STATE-OWNED CORPORATIONS WHICH FORM PARTNERSHIPS WITH US PRIVATE ENTERPRISE. IN ORDER TO ATTRACT US FIRMS, AGREEMENTS FOR SUCH VENTURES WOULD HAVE TO INCLUDE EXPLICIT GUARANTEES OF RIGHT TO EXPORT SHARE OF EARNINGS AND TO ADEQUATE COMPENSATION IN EVENT OF EVENTUAL 100 PERCENT TAKEOVER BY GOA. WORKING GROUPS UNDER JOINT COMMISSION COULD ESTABLISH GUIDELINES FOR US PARTICIPATION IN JOINT VENTURES.

9. ENERGY

US INDUSTRY ALREADY IS DEEPLY INVOLVED IN THE DESIGN AND CONSTRUCTION OF NATURAL GAS LIQUEFACTION FACILITIES AND RELATED INFRASTRUCTURE SUCH AS PIPELINES AND PORTS. US FIRMS HOLD PATENTS ON LATEST SUCCESSFUL LIQUEFACTION

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SECRET

PAGE 04 STATE 090001

TECHNIQUES AND CAN UTILIZE THEM IN CONSTRUCTION OF ALGERIAN PLANTS. GAS CYCLING AND CONDENSATE RECOVERY TO ELIMINATE WASTEFUL FLARING OF POTENTIALLY USABLE GASES SHOULD BE EXPLORED. WE UNDERSTAND THAT SONATRACH HAS STUDIED THIS PROBLEM AND HAS CONTACTED AT LEAST ONE US FIRM ON PROJECT FOR WHICH EXIMBANK FUNDING WAS REQUESTED.

10. LIQUEFIED NATURAL GAS (LNG) OFFERS GREAT POTENTIAL FOR COOPERATION IN ENERGY FIELD. JOINT WORKING GROUP COULD EXPLORE NEW USES FOR LNG WITH VIEW TO HELPING ALGERIA DIVERSIFY ITS POTENTIAL MARKETS.

11. SCIENCE AND TECHNOLOGY

ALGERIANS HAVE EVIDENCED CONSIDERABLE INTEREST IN US APPLIED SCIENCES AND MANAGEMENT TECHNIQUES AND ON OWN

INITIATIVE HAVE ENGAGED TOP-FLIGHT AMERICAN ENGINEERING
AND CONSULTING FIRMS. THEY HAVE SENT ALGERIANS TO US
FOR TRAINING IN BUSINESS ADMINISTRATION AND SCIENCES
AS WELL AS TRADITIONAL PETROLEUM-RELATED STUDIES. WITH
THE JOINT COMMISSION SERVI
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